

(a) Date of Proposal:

August 15, 2008

(b) Name of Organization Submitting Proposal:

Foreign Agricultural Service (FAS) Office of Country and Regional Affairs (OCRA) and FAS Office of Agricultural Affairs (OAA) at the United States Embassy in Beijing

(c) Organization Address, Telephone and Fax Number:

1400 Independence Avenue, S.W., Stop 1073, Washington, D.C., Tel: (202) 720-0167, Fax: (202) 690-1093

(d) Primary Contact Person:

Adam Branson, International Economist, Asia Division, OCRA

(e) Full Title of Proposal:

Technical Cooperation Between China and the United States Department of Agriculture (USDA) On Risk Management for Agricultural Interests

(f) Target Market:

People's Republic of China

(g) Current Conditions in the Target Market Affecting the Intended Commodity or Product:

According to information from the U.S. Embassy OAA in Beijing, China, the Chinese government has been looking to improve and expand upon its fledgling agricultural insurance program that is available to agricultural producers in the animal husbandry sector. Although available, the programs have not been well used for a number of factors. The Chinese government are interested in learning more about best practices for agricultural risk management from the United States. Officials from China's Securities and Regulatory Commission (CSRC), China's Insurance Regulatory Commission (CIRC), and the People's Insurance Company of China (PICC) have expressed a strong interest in high-level bilateral meetings and trade fora (for example, the U.S. – China Strategic Economic Dialogue [SED] and the Joint Commission on Commerce and Trade [JCCT]) and its working groups to learn more about U.S. insurance schemes and risk management strategies for agricultural producers. It seemed that many of these officials were only marginally aware of yield-based insurance programs and completely unaware that USDA had some insurance tools based on futures market prices. Stemming from China's recent experience in coping with natural disasters and catastrophe (significant freezes, animal disease outbreaks, and the Sichuan earthquake), now would be an opportune time to further engage the Chinese government on technical cooperation on risk management practices for agricultural interests.

(h) Description of Problem(s)/Constraint(s) to be Addressed by the Project:

1. Insufficient Contacts – USDA has few contacts in China tied to the insurance sector and China's fledgling insurance program for China's animal husbandry sector. The activity would enable the USDA to better target future interactions with key policy makers and interested parties in the Chinese government. As contacts increase and regulators awareness with insurance

and futures markets improves, there is potential opportunity for raising incomes in China's rural sector and a greater opportunity to see increased exports to China.

2. Lack of Awareness by Foreign Officials of U.S. Business Practices – Initial contacts have revealed that Chinese officials have very little awareness of the history and current situation in American agricultural insurance and risk management practices. The activity would begin filling in significant information gaps and help foster stronger relationships with the United States. As foreign officials build their awareness of U.S. business practices, it will increase the available opportunities for local business to understand better how to use futures markets and manage their risks when importing U.S. agricultural products into China.

3. Lack of Awareness by U.S. Officials of China's Developing Agribusiness Practices – China's slow development of an insurance program for its rural sector is largely unknown to USDA and other U.S. government officials. As USDA begins interacting with officials, futures markets players, and agribusiness, it could lead to better rapport with potential users and buyers of U.S. agricultural inputs.

(i) Project Objectives:

China develops its own disaster risk management programs for rural/agricultural communities based on information from the United States. Additionally, the project will help USDA FAS offices help with Country Strategy Statement Goal 4, Speeding the Modernization of China's Agricultural Sector, by helping meet objectives 4.2 and 4.5

4.2: Implement pilot projects that demonstrably link production capacity building to long-term FAS strategic goals that increase incomes and demand for U.S. agricultural products.

4.5: Establish and help strengthen local extension and risk management, marketing, statistical, agricultural research systems.

Finally, the program could help USDA fulfill some of its responsibilities in the U.S. – China JCCT and SED where USDA leadership has offered to work with China on "Promoting and Maintaining a Strong and Vibrant Rural/Agricultural Community."

(j) Performance Measures:

1. USDA is offered/takes a more active role in the U.S. and China Insurance Dialogue under the JCCT by participating in discussions or giving presentations

2. China shares information on the development and future plans for its agricultural insurance programs as well as their plans to encourage producers to actively use futures markets for risk management and asks for additional information and cooperation from USDA officials.

3. USDA facilitates discussion between China's insurance companies and the U.S. insurance industry for greater collaboration in the future.

4. USDA develops written and public information to share with others in the U.S. government and the U.S. public on the developments of China's agricultural insurance.

5. USDA coordinates exchanges between U.S. agricultural insurance and risk management experts and CSRC, CIRC, PICC, and China's Ministry of Agriculture (MOA).

6. USDA supports a Cochran Fellowship Program for officials from CIRC and PICC to take place in Fall 2008.

(k) Rationale/Explanation of the Underlying Reasons for the Project Proposal and its Approach, the Anticipated Benefits, and Additional Pertinent Analysis:

Under Secretary Mark E. Keenum has approved a decision memorandum for USDA to pursue helping China develop its risk management practices (including crop insurance) in the U.S. – China SED (the highest-level economic dialogue for U.S. – China relations) under the notional theme of spreading the benefits of economic growth to China’s rural communities: “Promoting and Maintaining a Strong and Vibrant Rural/Agricultural Community.” This is worthwhile for USDA and its constituents because it will lead to greater stability and transparency in China’s marketplace which will benefit many of the United States agricultural producers and exporters interested in creating a growing and less volatile marketplace for their goods.

In addition, the USDA Country Strategy Statement (CSS) for China has a goal of helping speed the modernization of China’s agricultural sector. Interacting and developing technical cooperation with various Chinese officials and Chinese designates with a focus on market-based tools, such as crop and price based insurance or the use of futures markets, would help meet the objectives of the CSS. In particular, and inline with Emerging Markets Program appropriate activities, the activity supports helping the Chinese “government collect and use market information and develop free trade policies that will benefit U.S. exporters as well as the target country.”

As for benefits to U.S. interests, as China’s agricultural sector modernizes, it should help increase rural incomes and further increase demand for U.S. agricultural exports to China. Based on initial discussions, technical cooperation and information sharing on how the United States has developed a government/private sector cooperative insurance program using historical yields and futures market prices and how American producers use futures markets to manage risk would be beneficial to the bilateral relationship. Additionally, as China moves towards adopting similar insurance programs, China’s crop yields and agricultural production will need to become more transparent (i.e., fewer state secrets with regards to crop production) and producer decisions could begin being based on market signals and not government directive. Furthermore, as China begins integrating production decisions with market prices, there should be less interest and need for the Chinese government to control trade or interfere with market signals that disrupts U.S. trade to China and to other markets in the region.

(l) Clear Demonstration that Successful Implementation Will Benefit a Particular Industry:

China’s move to improve agricultural risk management (i.e., crop yield and price based insurance and the use of futures markets for rural producers) tools for its animal husbandry sector and introduce such tools to its crop production sector could lead towards significant benefit to China’s agricultural producers. This will benefit the United States agricultural industry because it should provide added security to these Chinese producers and enable them to become more stable buyers and consumers of other goods, including, U.S. agricultural inputs and even U.S. food and agricultural products. This activity will benefit the United States government as well as American agricultural producers because it will lead towards greater production transparency and thereby offer greater insight into world agricultural production. Moreover, successfully introducing price-based insurance schemes should help producers base production and planting decisions on rational economic and financial indicators and move China away from

interfering with market signals. Additionally, introducing the Chinese government to USDA's historical approaches to insurance schemes for agricultural producers and farmers uses of futures markets could help transform the roles and responsibilities of USDA's counterparts in China and thereby make them even more valuable long-term partners. Moreover, as insurance options develop, it could benefit the United States insurance industry as well as further the aims of other U.S. government departments. Finally, successful implementation will help USDA and the broader U.S. government inter-agency develop its diplomatic relationship with China while delivering on its goals in the JCCT and SED.

(m) Specific Description of Activity/Activities to be Undertaken:

The activity provides short-term training in broad aspects of agriculture and agribusiness to various officials and regulators in China's government as well as any designates. The activity will improve information exchange and technical cooperation between the United States and China on risk management practices and strategies for agricultural interests. The activity will support bringing a group to the United States to learn about risk management experiences and for a follow-up group of USDA officials or USDA selected individuals to travel to China and provide additional technical information to larger Chinese audiences, including government officials, commodity markets, and the insurance sector. The activity could also support an Agricultural Insurance Dialogue or Symposium that would gather some of the United States and China's experts discussing the most pressing issues for the industry. The Chinese officials and designates would spend time in Washington, D.C., and in the U.S. Midwest with stops in Chicago and its surrounding agricultural areas to learn more about how futures markets function and differ from spot prices and how U.S. agricultural producers use them to help manage production risks and crop insurance decisions. The U.S. officials would visit Beijing to share more information with Chinese officials and travel to locations that house China's futures markets (for example, Dalian in Liaoning Province, and Shanghai) in order to reach a broader audience of agribusiness and insurance industries. The activity and Emerging Markets Program funding will also support the costs for a locally employed staff from the U.S. Embassy AAO to participate in all travel and meetings as well as for interpretation services and their associated costs for travel and/or lodging.

(n) Time Lines for Implementation of Activity:

In October/November 2008, FAS re-engages USDA's Risk Management Agency to start exploring possible options and questions that need to be addressed for work to continue. In November 2008, the AAO and the Office of the United States Trade Representative (lead agency for the JCCT Insurance Dialogue) begin identifying specific points of contact in China's government that would benefit from learning more about U.S. risk management practices. In February/March 2009, Chinese officials come to the United States for some initial cooperation and information exchanges on risk management. In May/June 2009, Chinese officials engage their Chinese domestic counterparts and invite/allow USDA risk management experts to travel to China to reach an expanded audience. In July/August 2009, USDA staff and government designates travel to China and meet with officials at national and local levels along with agribusiness, futures markets, and insurance industry leaders on U.S. experiences with risk management.

(o) Information on Whether Similar Activities Are or Have Been Previously Funded with USDA Sources in Target Country:

In Winter 2007/2008, CSRC received a general introduction into some of USDA's crop re-insurance services during a bilateral meeting with USDA Under Secretary Keenum in Washington, D.C. The AAO at the U.S. Embassy in Beijing, using general operational funds, delivered a presentation on USDA Risk Management to a Chinese audience at the most recent JCCT Insurance Dialogue in May/June 2008.

(p) Detailed Line Item Activity Budget:

Part 1: China's Travel to the United States

International and Domestic Airfare (Beijing to D.C., D.C. to Chicago, Chicago to Beijing) -

\$3000 * 6 people = \$18000

Lodging and M&IE in D.C. - \$273 * 5 days * 6 people = \$8190

Lodging and M&IE in Chicago/Midwest - \$213 * 5.5 days * 6 people = \$7029

Courier/Ground Transportation Services - \$3000

Interpretation Services - \$8000

Sub-Total Part 1: ~ \$45,000

Part 2: United States Travel to China

International and Domestic Airfare (D.C. to Beijing, Beijing to Dalian, Dalian to Shanghai, Shanghai to D.C.) - \$3200 * 5 people = \$16,000

Lodging and M&IE in Beijing - \$316 * 4 days * 5 people = \$6320

Lodging and M&IE in Dalian - \$199 * 4 days * 6 people = \$4776

Lodging and M&IE in Shanghai - \$360 * 2 days * 6 people = \$4320

Courier/Ground Transportation - \$1800

Interpretation Services - \$6400

Sub-Total Part 2: ~ \$40,000

Sub-Total Part 1 and 2 * .15 for cost increases = ~\$13,000

Total = \$98,000